

MILLER BROOKS ENVIRONMENTAL, INC.

ACCOUNTANTS' REVIEW REPORT

MARCH 31, 2005 AND 2004

MILLER BROOKS ENVIRONMENTAL, INC.

ACCOUNTANTS' REVIEW REPORT

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BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REVIEW REPORT

Board of Directors
Miller Brooks Environmental, Inc.
Huntington Beach, CA

We have reviewed the accompanying balance sheets of Miller Brooks Environmental, Inc. as of March 31, 2005 and 2004, and the related statements of income and retained earnings, and cash flows for the years then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Miller Brooks Environmental, Inc.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with generally accepted accounting principles.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING
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June 29, 2005

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MILLER BROOKS ENVIRONMENTAL, INC.

BALANCE SHEETS
March 31, 2005 and 2004

ASSETS

	<u>2005</u>	<u>2004</u>
Current assets		
Cash	\$ 37,438	\$ 47,572
Accounts receivable less allowance for doubtful accounts of \$31,150 and \$45,113, respectively	3,163,117	3,041,040
Unbilled services	1,204,634	1,450,382
Prepaid income taxes	0	5,000
Prepaid expenses - other	<u>236,193</u>	<u>241,597</u>
Total current assets	<u>4,641,382</u>	<u>4,785,591</u>
Property and equipment		
Furniture and fixtures	92,270	86,853
Computer equipment	306,327	284,862
Autos and trucks	265,729	238,768
Field equipment	226,647	175,731
Leasehold improvements	<u>65,497</u>	<u>65,497</u>
Total property and equipment	956,470	851,711
Less: accumulated depreciation	<u>(502,059)</u>	<u>(342,524)</u>
Property and equipment, net	<u>454,411</u>	<u>509,187</u>
Other assets		
Deposits	28,172	30,700
Employee loans	502	3,965
Organizational costs less accumulated amortization of \$26,511 and \$23,662, respectively	22,606	25,455
Deferred tax asset	<u>142,450</u>	<u>7,770</u>
Total other assets	<u>193,730</u>	<u>67,890</u>
Total assets	<u><u>\$ 5,289,523</u></u>	<u><u>\$ 5,362,668</u></u>

See accountants' review report and accompanying notes

MILLER BROOKS ENVIRONMENTAL, INC.

BALANCE SHEETS
March 31, 2005 and 2004

LIABILITIES AND SHAREHOLDER'S EQUITY

	<u>2005</u>	<u>2004</u>
Current liabilities		
Accounts payable - trade	\$ 301,500	\$ 181,895
Accrued expenses - other	59,562	33,519
Accrued payroll	183	1,526
Accrued vacation	171,422	186,987
Accrued payroll - flex time	0	929
Federal income taxes payable	2,280	0
State income taxes payable	45	0
Customer deposits	13,257	5,981
Line of credit	1,450,000	1,950,000
Notes payable, short-term	74,389	154,310
Deferred income tax liability	<u>1,432,593</u>	<u>1,159,651</u>
Total current liabilities	<u>3,505,231</u>	<u>3,674,798</u>
Long-term liabilities		
Long-term notes payable	<u>58,688</u>	<u>51,327</u>
Total long-term liabilities	<u>58,688</u>	<u>51,327</u>
Total liabilities	<u>3,563,919</u>	<u>3,726,125</u>
Shareholder's equity		
Common stock, no par, 2,000,000 shares authorized 1,000,000 shares issued and outstanding	5,000	5,000
Retained earnings	<u>1,720,604</u>	<u>1,631,543</u>
Total shareholder's equity	<u>1,725,604</u>	<u>1,636,543</u>
Total liabilities and shareholder's equity	<u><u>\$ 5,289,523</u></u>	<u><u>\$ 5,362,668</u></u>

See accountants' review report and accompanying notes

MILLER BROOKS ENVIRONMENTAL, INC.

STATEMENTS OF INCOME AND RETAINED EARNINGS

For the Years Ended March 31, 2005 and 2004

	2005	2004
Revenues		
Labor revenues	\$ 5,837,762	\$ 6,589,592
ODC revenues	7,936,957	4,513,482
Equipment revenues	<u>156,276</u>	<u>164,554</u>
Total revenues	13,930,995	11,267,628
Cost of sales	<u>9,674,023</u>	<u>6,502,976</u>
Gross profit	4,256,972	4,764,652
General and administrative expenses	<u>3,994,154</u>	<u>4,102,634</u>
Total operating income	<u>262,818</u>	<u>662,018</u>
Other income (expense)		
Interest expense	(32,584)	(30,666)
Interest income	214	29
Accounts receivable factors interest expense	<u>0</u>	<u>(63,002)</u>
Total other income (expense)	<u>(32,370)</u>	<u>(93,639)</u>
Income before income taxes	230,448	568,379
Provison for income taxes	<u>141,387</u>	<u>188,213</u>
Net income	89,061	380,166
Retained earnings, beginning	<u>1,631,543</u>	<u>1,251,377</u>
Retained earnings, ending	<u>\$ 1,720,604</u>	<u>\$ 1,631,543</u>

See accountants' review report and accompanying notes

MILLER BROOKS ENVIRONMENTAL, INC.

STATEMENTS OF CASH FLOWS

For the Twelve Months Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cash flows from operating activities		
Net income (loss)	\$ 89,061	\$ 380,166
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation and amortization	169,884	155,883
Decrease (increase) in operating assets		
Accounts receivable	(122,078)	(5,295)
Unbilled services	245,748	(323,278)
Prepaid income taxes	5,000	1,250
Prepaid expenses	5,404	(167,740)
Deposits	2,529	(1,731)
Employee loans	3,463	(2,400)
Factor A/R	0	62,809
Increase (decrease) in operating liabilities		
Accounts payable	119,605	(248,214)
Accrued expenses	8,206	(98,182)
Income taxes payable	2,325	0
Customer deposits	7,275	(3,632)
Deferred tax	138,262	186,963
Net cash provided by (used in) operating activities	<u>674,684</u>	<u>(63,401)</u>
Cash flows from investing activities		
Capital expenditures	<u>(112,259)</u>	<u>(310,879)</u>
Net cash provided by (used in) investing activities	<u>(112,259)</u>	<u>(310,879)</u>
Cash flows from financing activities		
Proceeds from line of credit	0	400,000
Line of credit repayments	(500,000)	0
Notes payable repayments	<u>(72,559)</u>	<u>(51,953)</u>
Net cash provided by (used in) financing activities	<u>(572,559)</u>	<u>348,047</u>
Net increase (decrease) in cash and cash equivalents	(10,134)	(26,233)
Cash and cash equivalents at beginning of period	<u>47,572</u>	<u>73,805</u>
Cash and cash equivalents at end of period	<u>\$ 37,438</u>	<u>\$ 47,572</u>

See accountants' review report and accompanying notes

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 1 – Summary of Significant Accounting Policies

Nature of business

Miller Brooks Environmental, Inc. (the Company) is a California corporation organized in November 1992. The Company provides engineering and geological consulting services in the hazardous and non-hazardous materials industry, and construction services. The Company provides its services mainly to businesses in the Southwestern United States through its headquarters office in Huntington Beach, California and its branch offices in Oakland, California and Phoenix and Tucson, Arizona.

Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Method of accounting

The Company's financial statements are prepared in conformity with generally accepted accounting principles. The Company files its corporate income tax returns using the cash method of accounting.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents.

Accounts receivable

Revenues are recorded as accounts receivable based on billable equipment, subcontractor and labor rates. Invoices are sent out weekly, or sooner, to customers contracting with the Company. Due to contractual arrangements utilizing Underground Storage Tank (UST) funds, it is not uncommon for the Company to collect certain accounts receivable in 90 days or more. All other accounts receivable are collected in 30–60 days.

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected.

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Compensated absences

Employees of the Company are entitled to vacation and sick leave. The values of accumulated vacation and sick leave accrued for salaried employees for the years ended March 31, 2005 and 2004 are estimated at \$171,422 and \$186,987, respectively.

Property and equipment

Property and equipment are recorded at cost. Depreciation recorded in the accompanying financial statements is computed in accordance with the Federal income tax laws in effect at the time of acquisition which does not result in material differences from depreciation computed on estimated useful lives. Costs of normal repairs, maintenance and minor replacements are expensed when incurred. Depreciation expenses for the years ended March 31, 2005 and 2004 are \$169,884 and \$155,883, respectively.

Concentrations of credit risk

The Company maintains cash in checking and savings accounts with federally insured banks. At times, the balances in these accounts may be in excess of federally insured limits.

Income taxes

The Company accounts for income taxes in accordance with Statements of Financial Accounting Standards No. 109, "*Accounting for Income Taxes*", which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce the deferred tax assets to the amount expected to be realized. Income tax expense is payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Pension plan

The Company has adopted a 401(K) Profit Sharing Plan that covers most of their employees with over 30 days of continuous service. The employee also has to be 21 years of age or older. The Company's contribution to the plan is limited to 50% of the eligible employee's first 4% contributed. The contribution is fully vested at the time of the match. The Company's employer contribution expense for the years ended March 31, 2005 and 2004 was \$64,837 and \$59,834, respectively.

Note 2 – Line of Credit

The Company has a line of credit with California Bank & Trust for a total of \$2,000,000. The credit line bears interest at the initial prime rate and fluctuates based upon the lower of the rates as published by the Wall Street Journal in its "Money Rates" or similar chart. It is secured by all accounts receivable, inventory and equipment and a personal guarantee by the sole stockholder. The line matures in August, 2005. As of March 31, 2005 and 2004 the balances outstanding were \$1,450,000 and \$1,950,000, respectively.

Note 3 – Notes Payable

Notes payable consist of the following:

	<u>2005</u>	<u>2004</u>
0% note payable, secured by Ford truck, payable in monthly installments of \$624 per month, due Feb. 2006.	\$ 6,866	\$ 14,355
0% note payable, secured by 2003 Chevy truck, payable in monthly installments of \$342 per month, due July 2008.	13,690	17,797
1.9% note payable, secured by 2002 Chevy truck, payable in monthly installments of \$762 per month, due September 2005.	4,542	13,508
4.25% note payable, personally guaranteed by the Company's owner, payable in interest only monthly installments, due August, 2008.	81,716	100,000

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 3 -- Notes Payable (continued)

4.75% note payable, personally guaranteed by the Company's owner, payable in monthly installments of \$2,989 per month, due December, 2005.

	<u>26,263</u>	<u>59,976</u>
Total	133,077	205,636
Current portion	<u>74,389</u>	<u>154,309</u>
Long-term debt	<u>\$ 58,688</u>	<u>\$ 51,327</u>

Future minimum payments for notes payable for the five years subsequent to March 31, 2005 are as follows:

Year ending <u>March 31</u>	
2006	\$ 74,389
2007	38,409
2008	18,911
2009	1,368
2010	0

Note 4 -- Operating Leases

The Company leases office and storage space in Huntington Beach, California, and Phoenix, Arizona for sales and administration purposes. The Company entered into lease agreements at its Huntington Beach and Phoenix offices commencing on September 1, 2002 and April 1, 2003, respectively, and extending through August 2008 and March 2006, respectively. The rent increases on a dollar per square foot amount per year.

Future minimum lease payments for operating leases for the five years subsequent to March 31, 2005 are as follows:

Year ending <u>March 31</u>	
2006	\$ 223,660
2007	222,504
2008	234,830
2009	100,549
2010	0

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 5 -- Major Customer

The Company had one major customer for the years ended March 31, 2005 and 2004, which comprised 40% and 58%, respectively, of total sales.

Note 6 -- Supplemental Cash Flow Information

	<u>2005</u>	<u>2004</u>
Cash paid for:		
Interest	\$ 32,584	\$ 32,584
Income taxes	800	800

Non-cash Investing and Financing Activities

Equipment acquired under note payable obligation	\$ 0	\$ 43,005
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Note 7 -- Income Taxes

The provision for income taxes consists of federal and state taxes at the applicable rates. The provision for income taxes for the year ended March 31, 2005 consists of the following:

Current provision	
Federal	\$ 2,280
California	800
Arizona	<u>45</u>
Total	<u>3,125</u>
Changes in deferred income taxes:	
Federal	112,587
California	73,114
Arizona	<u>(47,439)</u>
	<u>138,262</u>
Total tax provision	\$ <u>141,387</u>

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 7 – Income Taxes (continued)

Deferred income tax assets (liability) as of March 31, 2005 consist of the following:

	<u>Federal</u>	<u>California</u>	<u>Arizona</u>	<u>Total</u>
Current:				
State taxes – deferred	\$ 101,544	\$ 0	\$ 0	\$ 101,544
Depreciation (5 year average)	(6,200)	1,264	(262)	(5,198)
Net operating loss	163,241	17,400	20,868	201,509
Cash conversion	(1,389,330)	(270,135)	(71,801)	(1,731,266)
Contribution carryforward	<u>818</u>	<u>0</u>	<u>0</u>	<u>818</u>
Total current deferred income taxes	<u>(1,129,927)</u>	<u>(251,471)</u>	<u>(51,195)</u>	<u>(1,432,593)</u>
Long term:				
Net operating loss	163,241	0	0	163,241
Depreciation	<u>(24,799)</u>	<u>5,057</u>	<u>(1,049)</u>	<u>(20,791)</u>
Total long term deferred income taxes	<u>138,442</u>	<u>5,057</u>	<u>(1,049)</u>	<u>142,450</u>
Total deferred income taxes	\$ <u>(991,485)</u>	\$ <u>(246,414)</u>	\$ <u>(52,244)</u>	\$ <u>(1,290,143)</u>

The company has available at March 31, 2005, unused operating loss carry-forwards of approximately \$1,500,000, which may provide future tax benefits, expiring in 2020.

The provision for income taxes for the year ended March 31, 2004 consists of the following:

Current provision	
California	\$ 1,200
Arizona	<u>50</u>
Total	<u>1,250</u>
Changes in deferred income taxes:	
Federal	143,712
California	26,015
Arizona	<u>17,236</u>
	<u>186,963</u>
Total tax provision	\$ <u>188,213</u>

MILLER BROOKS ENVIRONMENTAL, INC.

NOTES TO FINANCIAL STATEMENTS

March 31, 2005 and 2004

Note 7 -- Income Taxes (continued)

Deferred income tax assets (liability) as of March 31, 2004 consist of the following:

	<u>Federal</u>	<u>California</u>	<u>Arizona</u>	<u>Total</u>
Current:				
State taxes -- deferred	\$ 92,815	\$ 0	\$ 0	\$ 92,815
Depreciation (5 year average)	0	1,942	0	1,942
Net operating loss	506,022	47,515	38,841	592,378
Cash conversion	(1,479,980)	(230,877)	(138,735)	(1,849,592)
Contribution carryforward	<u>2,246</u>	<u>350</u>	<u>210</u>	<u>2,806</u>
Total current deferred income taxes	<u>(878,897)</u>	<u>(181,070)</u>	<u>(99,684)</u>	<u>(1,159,651)</u>
Long term:				
Depreciation	<u>0</u>	<u>7,770</u>	<u>0</u>	<u>7,770</u>
Total long term deferred income taxes	<u>0</u>	<u>7,770</u>	<u>0</u>	<u>7,770</u>
Total deferred income taxes	<u>\$ (878,897)</u>	<u>\$ (173,300)</u>	<u>\$ (99,684)</u>	<u>\$ (1,151,881)</u>

The company has available at March 31, 2004, unused operating loss carry-forwards of approximately \$1,500,000, which may provide future tax benefits, expiring in 2019.

ADDITIONAL INFORMATION

BALSER, HOROWITZ, FRANK & WAKELING

AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS

ACCOUNTANTS' REVIEW REPORT ON ADDITIONAL INFORMATION

The Board of Directors
Miller Brooks Environmental, Inc.
Huntington Beach, CA

Our report on our reviews of the basic financial statements of Miller Brooks Environmental, Inc. for the years ended March 31, 2005 and 2004 appear on page 1. Those reviews were made for the purpose of expressing limited assurance that there are no material modifications that should be made to the financial statements in order for them to be in conformity with generally accepted accounting principles. The information included in the accompanying schedules of cost of sales and schedules of general and administrative expenses is presented only for supplementary analysis purposes. Such information has been subjected to the inquiry and analytical procedures applied in the review of the basic financial statements, and we are not aware of any material modifications that should be made thereto.

Balser, Horowitz, Frank & Wakeling

BALSER, HOROWITZ, FRANK & WAKELING
Santa Ana, California
June 29, 2005

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MILLER BROOKS ENVIRONMENTAL, INC.

SCHEDULES OF COST OF SALES

For the Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Cost of sales		
Bonding	\$ 53,197	\$ 17,248
Delivery and freight	16,015	16,077
Field equipment	990	53,877
Field supplies	263,214	326,773
Mileage	52,999	54,106
Office supplies	1,415	524
Parking	2,391	1,608
Postage	920	117
Rent - equipment	29,919	61,212
Rent - vehicles	21,937	28,284
Reproductions	16,594	10,654
Salaries - direct	2,068,150	2,198,601
Subcontractors - consultants	6,738	1,000
Subcontractors - drilling	964,488	991,045
Subcontractors - lab	424,244	452,039
Subcontractors - other	5,507,866	2,058,144
Taxes, licenses, and permits	179,634	159,450
Telephone	3,234	1,319
Travel and lodging	60,078	70,454
Union fringe benefits	0	444
	<hr/>	<hr/>
Total cost of sales	<u>\$ 9,674,023</u>	<u>\$ 6,502,976</u>

See accountants' review report on additional information

MILLER BROOKS ENVIRONMENTAL, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
General and administrative expenses		
Auto and truck expenses	\$ 14,955	\$ 9,635
Bank charges	952	1,418
Computer supplies	5,789	3,645
Delievery and freight	8,144	5,887
Depreciation expense	169,884	155,883
Discounts on purchases	(8,620)	(211)
Donations	0	650
Dues and subscriptions	11,272	12,176
Employee relations	11,053	45,618
Equipment - computer	5,077	4,014
Equipment - field	575	1,343
Equipment - furniture and fixtures	625	622
Field supplies	405	667
General marketing	50,341	30,053
Hiring costs	9,814	14,654
Insurance - auto and truck	19,174	15,198
Insurance - general liability	76,565	68,199
Insurance - life	15,649	11,429
Insurance - medical	138,419	137,295
Insurance - workers comp.	67,913	46,380
Isurance - LTD, life, and serious illness	16,950	3,912
Medical monitoring program	14,221	15,312
Mileage	3,832	2,439
Miscellaneous	14	0
Office supplies	71,557	71,480
Parking	5,550	2,920
Payroll taxes	335,185	365,468
Penalties	72	0
Postage	15,423	17,212
Professional fees	51,251	39,146
Rent - building	315,109	312,451
Rent - equipment	42,999	36,044
Rent - vehicle	2,230	2,139
Repairs and maintenance	5,823	19,766
Reproduction and photo copies	26	684
Salaries - 401k employer contribution	64,837	59,834
Salaries - employee bonuses	10,000	318,517
Salaries - indirect	1,896,228	1,731,166

See accountants' review report on additional information

MILLER BROOKS ENVIRONMENTAL, INC.

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

For the Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Salaries - sick pay and holiday	199,706	194,424
Salaries - vacation	201,886	211,396
Seminars and education	30,422	19,429
Taxes and licenses	10,669	9,194
Telephone	84,472	84,862
Travel and lodging	17,216	19,791
Utilities	<u>490</u>	<u>493</u>
Total general and administrative expenses	<u>\$ 3,994,154</u>	<u>\$ 4,102,634</u>

See accountants' review report on additional information